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Levels of both general happiness and of satisfaction with various aspects of our lives have been declining in the U.S. for at least a quarter century, and perhaps much longer. This reflects the declining power of money -- the one source of happiness that the market can provide -- to make people happy. In fact, the true sources of happiness, especially people and relationships, are ignored or treated as mere externalities by the market, with little concern for whether market activity enhances or inhibits them. Examination of the labor market provides especially clear evidence of the ability of markets to actually inhibit, rather than facilitate, utility maximization.

INDICATORS AND CAUSES OF DECLINING WELLBEING

The National Opinion Research Center has been asking people whether they are very happy, pretty happy, or not too happy in annual national surveys since 1972. Underlying the year to year variations, there appears to be a gradual decline in "very happy" responses. This increasing unhappiness affects the young with particular force. Satisfaction with marriages, work, finances, and communities of residence all move in the same direction. The strongest correlation is between overall happiness and marital satisfaction, supporting the argument that people and relationships are the most important source of happiness. The direction of causality is not clear, but evidence suggests that it runs in both ways (i.e., greater happiness is both a cause and an effect of increased marital satisfaction), and that exogenous factors such as personality predispositions are also important.

The rising incidence of major depression in rapidly modernizing and already advanced economies provides additional evidence of this disturbing trend. People born after 1955 are three times as likely to suffer from major depression at least once in their lives as people born earlier; in rapidly developing countries, each successive generation is likely to be more depressed than the last. It is not clear whether these trends reflect mere historical blips in levels of happiness, or represent a more serious fundamental change in people's ability to attain high levels of wellbeing.

Several studies have evaluated correlations between particular features of people's lives and their overall level of happiness, which can tell us whether or not the main sources of happiness pass through the market. These studies find high correlations between happiness and indexes of efficacy (self-esteem, the ability to handle problems), family life, financial security, and leisure. Studies of the causes of depression show that while market-based factors such as housing and jobs are important, family problems seem to be of central concern. Thus, the role of the market is still uncertain; markets can be volatile and cause hardship, but they also relieve poverty, yet poverty does not appear to be an important source of depression in poor societies.

MONEY AND WELLBEING

The economistic fallacy is the belief that, even when one is beyond the poverty line, higher levels of income still contribute to increasing wellbeing. In reality, most evidence from advanced countries suggests that above the poverty line this relationship holds only weakly at best; the rich are no happier than the merely comfortable. However, many economists ignore evidence of the declining marginal utility of money, and perpetuate the assumption that markets do in fact satisfy human wants.

Comparisons of subjective evaluations of wellbeing between rich and poor countries make this effect especially clear. While rich societies are on average somewhat happier than poor ones -- the affluence effect -- the differences between them are not systematic, and there are significant differences among the rich countries themselves. It may be that the increased stresses that result from growth counterbalance the benefits of increasing income. However, many people in wealthy countries seem to be trapped on a "hedonic treadmill," always believing that just one more increase in income will be enough to make them happy. Rather than focusing on maximizing growth, seeking an optimal mix of economic growth and creation of other valued goods might be a more effective means of increasing wellbeing.

HAPPINESS AND LABOR MARKET EXTERNALITIES

Workers have less control over how labor markets affect them than they have over the impacts of consumption markets (because skills are less fungible than cash, they may face monopoly among employers, and exit is a costly option) so it is worth focusing our attention here. Labor markets are also important determinants of several sources of happiness, including employment itself, work enjoyment, and job security -- all factors that are treated as labor market externalities by economists.

One reason for economists' undervaluation of the psychic importance of work is its appearance on firms' ledgers as an accounting cost, whereas efforts to increase happiness through "better" consumer products appear in ledgers as profits from increased sales. In effect, firms treat work as "a disutility for which income and consumption are the compensating utilities." (14) This ignores the fact that work and mastery of skills can be important sources of happiness. Enjoyment and security of work are also treated as externalities because worker satisfaction has little effect on productivity, and because, contrary to Adam Smith's prediction, wage scales have not developed so as to compensate workers for unpleasant aspects of their work.

Looking in more detail at some of these labor market externalities, we must first dispute Juliet Schor's claim that increasing work stress and time demands are a leading cause of unhappiness. Both overworked and underworked people tend to be very unhappy, but there are at least twice as many of the latter. In fact, unemployment appears to be one of the most painful experiences associated with the labor market, yet it too is treated as an externality. However, unemployment fluctuates, and its trends do not parallel those of the rising tide of dissatisfaction, so while it contributes to unhappiness, it is not the source of the observed secular increases.

Too much attention is often focused on levels of income, while income security is usually undervalued. In fact, security may be the most important aspect of income to many people; some studies indicate that financial security is the most important determinant of general life satisfaction. There can be little doubt that job insecurity has been increasing for Americans, although this trend is perhaps too recent to account for long-term trends in unhappiness. However, as with unemployment, the market does not deal well with issues of job security.

Work satisfaction may in part come from pay, especially for job seekers, but fair treatment, independence, and reduction of repetitive tasks in favor of challenging work are even more important. The greater job satisfaction of elites may derive more from the psychic advantages of their work than the added income they receive. But again, these important factors are ignored by the market. People are not compensated for especially unpleasant tasks, nor do they lose pay if they are doing work that they enjoy.

Satisfaction with the level of one's income is a more important determinant of subjective wellbeing than the absolute level. In the case of friends, however, having them and deriving satisfaction from them are much more closely connected. This suggests that increasing everyone's income may have little impact on overall levels of happiness, while increasing the friendliness of society might have a substantial effect. Fortunately, while satisfaction with financial status has decreased in the last 25 years, satisfaction with friendships has not. For obvious reasons, friendship is not treated as a market commodity.

While some evidence indicates that satisfaction with family life has remained relatively stable in recent decades, levels of divorce and marital strain have been rising. Unhappy marriages may be a product of the indirect effects of the labor market on family life; increasing time demands, unemployment, and decreasing work satisfaction and/or security are, not surprisingly, closely related to marital satisfaction. In the eyes of employers these familial costs are just externalities, but they are destructive, and may increase real costs of labor in the future. Treating the stresses on family life caused by labor markets as mere externalities leads to the disintegration of family life, and hence to increasing unhappiness and depression.

A HISTORICAL TURNING POINT?

While subjective wellbeing increases on the way up the economic ladder to modernity, once societies "arrive," their levels of happiness plateau briefly, and then begin to turn downward as values and expectations change. Subjective wellbeing follows a curvilinear path: "where the affluence effect meets the economistic fallacy, there is a downturn in felicity." (29) Optimism is necessary to avoid depression, but optimism has been declining with economic development. Thus, the notion that economic development is the root of progress is seriously flawed, and utility in its traditional neoclassical sense is not an acceptable standard of happiness. Our primary sources of satisfaction are not measured in the market, so it is not surprising that subjective wellbeing and GDP growth are not closely linked once basic needs have been met.

Economic progress and development of human capital are cumulative, but in the case of happiness, perhaps people constantly adapt to changing circumstances and make the present the new standard of evaluation. However, to explain the fact that happiness is not just constant but actually declining, we must consider the effects of our institutions, especially the market, on the sources of our happiness. Economic functions are not ends in themselves; they are only valuable in so far as they bring men peace in their hearts and in their relationships. But "the offerings of the market no longer satisfy, not because the payoff is not large enough but because it is made in the wrong currency." (32)